

SCHOOL BUSINESS ALERT

Volume 1995-1

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Beginning with this issue of the *School Business Alert*, copies will again be sent directly to the School Business Official in each LEA.

FY93 CAR OPERATING FUND ANALYSIS

Enclosed with the copy of this newsletter sent to the SBO is a report on the FY93 CAR General Operating Fund data. This is a test report. Please review the items in the report and provide feedback to Susan McCurdy on the value of this report as management information. Please also send suggestions of what other information you would find useful in your financial operations. We will use your feedback and suggestions to provide a report from the FY94 CARs.

GAAP TRAINING ESTABLISHED

The Iowa School Business Management Academy and its sponsoring organizations (Iowa Association of School Business Officials, Iowa Association of School Boards, Iowa State University Department of Professional Studies, Iowa Department of Education, and School Administrators of Iowa), Iowa State University Extension Service, and the Office of the Auditor of State have established a training opportunity in accounting to prepare school districts and area education agency business office personnel for compliance with Generally Accepted Accounting Principles (GAAP). Pursuant to subsection 257.31(4), Iowa Code, school districts and area education agencies must conform to GAAP commencing with the school year beginning July 1, 1996.

This initial training opportunity is scheduled to be held July 26, 27 & 28, 1995 via the Iowa Communications Network (ICN) and will be downlinked to fifteen sites around the state. The instruction will originate from a central Iowa location with a primary instructor at the central site assisted

by an instructional facilitator at each of the downlink sites.

By early April all districts and area education agencies will be receiving a packet of materials from Dr. Bill Poston, Executive Director of the Iowa School Business Management Academy that will detail the location of the downlink sites, course content, registration procedures and other matters associated with the GAAP training. Special Note: School districts and area education agencies may be limited to one participant because of space restrictions.

BUDGET UPDATE

Question: How do you read the cell numbers from the CAR on the Budget Crosswalk?

Answer: Each cell number is six digits in length. The first two digits indicate the Part number from the CAR, the next two digits indicate the row number, and the last two digits indicate the column number. Part - Row - Column.

Question: Why are the unspent balances larger than expected?

Answer: In order to be consistent with financial reporting, the unspent balance has been increased by authorized long-term debt proceeds which will be repaid in future years from the General Operating Fund. Currently there are four situations where this could occur: Energy loans, asbestos loans, equipment loans, and bus loans. This gives districts sufficient budget authority to immediately utilize the loan proceeds for the intended project. The retirement of the debt will be reported as an expenditure at the time of repayment and will reduce the budget authority over time.

Because this is merely a timing issue on receipt and retirement of long-term debt, this increase in the

unspent balance should not be viewed as "newly available" money.

ISCAP, stamped warrants, anticipatory warrants, and interfund loans will continue to be handled and reported as they always have been, on the balance sheets only. These should never be reported or budgeted as receipts or expenditures. This is true for the Certified Budget, Authorized Budget, Certified Annual Report, and the local district books

STUDENT ACTIVITY FUND UPDATE

Question: Will there be training or workshops available to help with sorting the activity fund?

Answer: Yes. The Iowa Association of School Board Secretaries (IASBS) will be sponsoring a 2-hour session on the Student Activity Fund during their annual meeting the first week of May. The presentation will include breakout sessions and a question-and-answer period. Participants should bring a copy of their student activity accounts and questions.

A question-and-answer period will also be available at the Iowa Association of School Business Officials (IASBO) annual meeting at the end of March.

If a group of people are interested in organizing a workshop in their AEA or IASBO Region, Susan McCurdy will assist with defining and sorting accounts as time and schedules permit.

Question: Must the student activity fund use the same account code structure as other funds?

Answer: Yes. The official records of all funds must utilize the uniform financial accounting code structure.

Districts may maintain additional supplemental records in any format the district chooses. However, those must only be supplemental to, and may not be in place of, the official records on the UFA structure.

Question: Must the district open new bank accounts to accommodate the new funds established when the activity fund is separated?

Answer: No. There is no requirement under Iowa law or GAAP which requires more than one bank account for all district funds. Each fund held in the same bank account must be allocated its own share

of interest earned. Individual trusts within one fund or individual agency accounts within one fund must also be allocated its own share of interest earned.

Auditors and bond attorneys prefer that bond proceeds for capital projects, trusts funds and agency funds be maintained in separate bank accounts.

Question: Must each trust be maintained in a separate fund?

Answer: No. Iowa Uniform Financial Accounting has a required dimension called the "project." This allows districts to separately identify accounting transactions by individual trust even when multiple trusts are accounted for within the same fund.

Question: Must interest be allocated to individual student activities or organizations within the activity fund?

Answer: No. Student activity or organizations accounts are not trusts or agencies. They are funds owned wholly by the school district, and interest earned on that fund may be used to finance any student activities as the board determines. Student activities or organizations are merely "line items" within the activity fund budget in the same way that the English department and math department are "line items" within the general fund budget.

OPEN LETTER TO BUILDING LEVEL ADMINISTRATION AND STAFF REGARDING STUDENT ACTIVITY FUND

Over the past six years, school business personnel have been transforming business operations to be in conformity with acceptable accounting and business practices, as they have been required by law to do. The Student Activity Fund was left to the last and now that time has come.

At the budget workshops, participants expressed concern that building level personnel have not been directly involved in the upgrading over the past six years and may not be aware that the GAAP and legal requirements impact them as well. The rest of this newsletter is an Open Letter to Building Level Personnel on what has been happening, what will be happening, and why.

History. During the 1970's, school business personnel received training and were required to convert all accounting to double-entry. The training was based on GAAP (Generally Accepted

Accounting Principles). All AEAs and four LEAs made a complete conversion to GAAP. The rest of the Iowa districts stopped just short of the year-end adjusting entries for accruals and deferrals. Instead, they "backed into" a balance sheet when they reported on the CAR (Certified Annual Financial Report).

While school districts sat just short of GAAP, the other Iowa governments--State, Cities, and Counties--passed them by and completed their conversions to GAAP.

In the late 1980's, the Iowa legislature passed a requirement that schools would complete their conversion and be in compliance with GAAP beginning with FY97 (July 1, 1996). This gave districts enough time to assess the level of expertise of their personnel and to provide staff development as they determined was necessary to be able to comply with GAAP beginning July 1, 1996.

After the legislation passed, several state agencies and the major associations met to assess the level of understanding and application of acceptable practices in districts at that time, and to establish a timeline of activities needed to get from that current level to the level of expertise necessary to be in GAAP compliance by the deadline.

Shortly afterwards the Iowa School Business Management Academy was established. The Academy has provided much of the training. Also, other associations and state agencies have provided training in their areas.

The Department of Education did not pass any further Rules because GAAP itself is codified and, therefore, Administrative Rules on the same topic would have been redundant. Instead, the department studied current laws, rules, and attorney general's opinions; identified those which would conflict with GAAP; and worked to have those laws or rules changed or repealed.

Most existing funds held by school districts easily converted to GAAP fund type definitions. This was not true of the Student Activity Fund which included activities of several different fund types. Because each fund type uses different accounting procedures under GAAP, the Student Activity Fund as we currently know it needed to be separated by fund type and defined in Code. The legislature passed this requirement in 1994, effective for FY96 (July 1, 1995).

Definitions. The current Student Activity Fund contains accounts which would be more appropriate to one or more of the following funds:

General Fund. The general fund is a governmental fund. It uses modified accrual accounting, records fixed assets in the GFAAG, records long-term debt in the GLTDAG, and is budgeted. The general fund is used to account for all financial transactions except those **required by law** to be accounted for in another fund. Until July 1, 1995, the General Fund has been called the Operating Fund in Iowa. Examples of student activity accounts which should be accounted for within the general fund include library and textbooks, wellness, and any curricular fees or activities.

Special Revenue Funds. Special revenue funds are governmental funds. They use modified accrual accounting, record fixed assets in the GFAAG, record long-term debt in the GLTDAG, and are budgeted. Special revenue funds are used to account for the proceeds of specific revenue sources (other than expendable trusts or for major capital projects) that are legally restricted to expenditures for specified purposes. By law, the student activity fund has been defined as a special revenue fund and is limited in revenues and expenditures. The law is reprinted in the next section of this article.

Enterprise Funds. Enterprise funds are proprietary funds. They use accrual accounting, record fixed assets and long-term debt within the funds, and are budgeted. Enterprise funds are used to account for operations that are financed and operated in a manner similar to private business or where periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for policy, control, accountability, or other purposes. Examples of student activity accounts which should be accounted for within an enterprise fund are farms, student construction, automotive repair shops, bookstores, community swimming pools, and stadiums.

Expendable Trust Funds. Expendable trust funds are fiduciary funds. They use modified accrual accounting, record fixed assets and long-term debt within the funds, and are budgeted. Expendable trust funds are used to account for assets held in a trustee capacity where both the principal (corpus) and earnings on the principal may be expended for the trust's intended purpose. Examples of student activity accounts which should be accounted for within an expendable trust fund are certain

scholarships and other moneys received from a private source to finance a particular expenditure.

Nonexpendable Trust Funds. Nonexpendable trust funds are fiduciary funds. They use accrual accounting, record fixed assets and long-term debt within the funds, and are not budgeted. However, the expendable portion is transferred to an expendable trust fund through an operating transfer and is budgeted there. Nonexpendable trust funds are used to account for assets held in a trustee capacity where the principal (corpus) may not be spent but is held to generate earnings which may be spent. Examples of student activity accounts which should be accounted for within nonexpendable trust funds would be certain scholarships.

Agency Funds. Agency funds are fiduciary funds. They use modified accrual accounting, have no operations (only have assets and liabilities), and are not budgeted. Agency funds are used to account for assets held in a custodial capacity. Agency funds typically involve only the receipt, temporary investment, and remittance of assets to their rightful owners. Use of agency funds is very restricted for schools and is generally limited to situations where the school is merely a custodian and not an owner.

GAAP means Generally Accepted Accounting Principles.

GFAAG means General Fixed Asset Account Group.

GLTDAG means General Long Term Debt Account Group.

Public Funds are those funds owned by a public entity such as a school district. This includes both tax and non-tax moneys. All moneys raised by student groups are owned by the school district, not the students, and are under the control of the local board.

All public funds are the legal responsibility of the board and the individuals appointed to serve as "board secretary" and "board treasurer." As a practical matter, the board will assign financial duties to other individuals in the district. However, legal responsibility assigned by law cannot be transferred by board action.

All public funds have the same legal requirements for accounting, reporting, auditing and allowing, dual signatures, segregation of duties, publishing, bonding, investing, Uniform Financial Accounting,

GAAP, etc. All expenditures/expenses from public funds must meet the test of public purpose.

STUDENT ACTIVITY FUND CODE OF IOWA, SECTION 298A.8

"Student Activity Fund. The student activity fund is a special revenue fund. [See definition in the previous section.] A student activity fund *must* be established in any school corporation receiving money from student-related activities such as admissions, activity fees, student dues, student fund-raising events, or other student-related cocurricular or extracurricular activities. Moneys in this fund shall be used to support *only* the cocurricular program defined in department of education administrative rules."

STUDENT ACTIVITY PROGRAM ADMINISTRATIVE CODE OF IOWA, SECTION 281--12.6(1)

"Each board shall sponsor a pupil activity program sufficiently broad and balanced to offer opportunities for all pupils to participate. The program shall be supervised by qualified professional staff and shall be designed to meet the needs and interests and challenge the abilities of all pupils consistent with their individual stages of development; contribute to the physical, mental, athletic, civic, social, moral, and emotional growth of all pupils; offer opportunities for both individual and group activities; be integrated with the instructional program; and provide balance so a limited number of activities will not be perpetuated at the expense of others."

STUDENT ACTIVITY FUNDS OWNERSHIP SUPREME COURT OF IOWA

All funds from all student organizations and activities residing in the school district funds including the student activity fund are owned by the school district. The students are not owners of the funds and the funds do not meet the legal requirement of description to be specific identifiable money.

STUDENT ACTIVITY FUNDS ATTORNEY GENERAL'S OFFICE

- I. Cities and towns cannot limit or license school activities (1928).

- II. Student activity funds may not in any event be devoted or allocated to any private organization nor may they be added to the general operating fund. These funds should be maintained in a student activity fund supervised by the board (1946)
- III. School districts are not required to maintain funds raised by outside organizations in the school activity fund. A board may regulate fundraising activity during school and school sponsored events, and it may regulate the use of funds derived from those sources (1983)
- IV. Public funds [other than PPEL fund] may not be used for lighting athletic fields used solely for interscholastic events (1992).
- V. Appropriate expenditures include the ordinary and necessary expenses of operating district sponsored and supervised student cocurricular and extracurricular activities. Expenditures that may *not* be made include the following:
 - 1. The cost of optional equipment or customizing uniforms. P
 - 2. The cost of uniforms when the following two tests are *not* met:
 - a. The activity is part of the school's educational program, and
 - b. The wearing of the uniform or equipment is necessary in order to participate. GF
 - 3. Hospital or medical claims for student injuries or procurement of student medical insurance. [This is not referring to district liability insurance which is obtained from money in the Management or General Funds.] P
 - 4. Optional costs related to activities such as promotional costs. GF
 - 5. Membership fees in student activity related associations if the fees are optional, in that non-member schools may participate in sponsored events (1992). GF

HOW TO SORT THE ACTIVITY FUND

The accounts are sorted into the proper funds based strictly on legal and GAAP definitions, not

personal choice. The business personnel will ask questions regarding the source and purpose of various accounts and sort them accordingly. This work will be done between now and July 1, 1995. Mistakes will likely occur as everyone learns new skills, and those original entries will be reversed and corrected as they are discovered. A flowchart is included on the last page of this newsletter to help define the process.

Each account in the current student activity fund will be studied to determine if it fits the legal definition for the student activity fund. If it does not fit the legal definition, it will be studied to determine if it fits the legal/GAAP definition of another fund. If it does, it will be transferred to that fund on July 1, 1995, using a residual equity transfer. This means that the beginning balances will be adjusted so that the July 1 balance in the activity fund is lowered and the July 1 balance in the appropriate other funds are raised by the same amounts.

If the account does not fit the legal definition of the student activity fund and does not fit the legal/GAAP definition for other funds, it will be transferred to the general fund. The debit will be to "refund of a prior year's revenue/auditor's downward adjustment", and the credit will be to "refund of a prior year's expenditure/auditor's upward adjustment". The transaction must be handled in this way due to Iowa's unique budgeting system which does not permit adjustments to the beginning balance in the general fund.

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SORTING THE ACTIVITY FUND

Account

Most Logical Fund

PE Towel Fees	General
Industrial Arts Resale	General
PE Padlocks	General
Revolving/Clearing/Holding/Flow-through	Delete
Library Fines	General
Textbook Rental/Sales	General
Home Ec Foods	General
Miscellaneous	Delete
Wellness	General
COBRA/Insurance	General
Early Retirement Medical Benefits	General/Management
Latch Key Program	Day Care
Hot Lunch	School Nutrition
Preschool	General (or enterprise if self-supporting)
Summer Workshops	General
Landscaping/Trees Committee	PPEL
Rental of Gym	General
State/Federal Grants	General/Nutrition/Day Care/Capital Projects
Anonymous Scholarship	Nonexpendable Trust/Expendable Trust
Playground Committee	PERL/PPEL
Computer Purchases	General
PE Field Trips	General
Adult Education	General
Community Education	General
Driver Education	General
Summer School	General
Unclaimed Classes	Delete
Goggles	General
Laboratory Fees	General
Workbooks	General
Change Fund/Petty Cash Fund	Delete; this is only on balance sheet
Resale in Girl's Restroom	General
Cafeteria Plan	General/Internal Service
Computer Fees	General
Swimsuit rental	General
Returned Checks	Delete; not an account
Parking stickers	General
Copies/Phone calls	General
Student Construction	Enterprise
Vandalism	General/Management/PPEL
Alumni Association	Agency
School bookstore	Enterprise
Self-Funded Insurance	General/Internal Service

Source: Bureau of School Administration and Accreditation, Iowa Department of Education